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#### GOS Confirms Recession

1.(U) The National Statistics Institute confirmed on February 12 that the Spanish economy contracted by 1.0 percent from the third to the fourth quarter of 2008. This marked the second consecutive quarter of negative growth, officially placing Spain in a recession for the first time since the first quarter of 1993. Fourth quarter GDP was 0.7 percent below its fourth-quarter 2007 level. GDP for 2008 as a whole was 1.2 percent above the 2007 total. (All Media, 2/12)

December Industrial Production Down Nearly 20 Percent, Worst in Eurozone

2.(U) According to Eurostat data, industrial production in December 2008 was 19.6 percent below its December 2007 level. This was the largest decline in the eurozone. Among all EU members, only Estonia had a greater decline. (ABC, 12/2)

Moody's Designates GOS Debt as "Vulnerable"

3.(U) In a report released February 12, Moody's Investor Service designated Spain's sovereign debt as AAA "vulnerable" based on risks related to the deteriorating public finance situation. Spain and Ireland were the only AAA-rated countries labeled as "vulnerable." Although this designation is not considered to be a downgrade, it is consistent with concerns regarding the government's diminishing receipts and ballooning deficit, which will likely reach 6 percent of GDP in 2009. This report comes on the heels of Standard and Poor's recent downgrade (ref B) of Spain's sovereign debt rating from AAA to AA. (El Pais, 2/12)

Zapatero Announces Plan to Cut Ministry Spending

4.(U) President Zapatero on February 10 announced his intent to cut 1.5 billion euros in ministry spending from the 2009 budget to pay for rising unemployment benefits. He did not specify how much each ministry's budget would be cut. The Congress must first approve the cuts. Comment: This move is another sign of the seriousness of both unemployment and the GOS' growing deficit. The 2009 budget passed last December was considered to be austere with a 3.3 percent nominal increase in programmed spending. Unemployment reached 13.9 percent in the fourth quarter and is expected to continue surging, putting further strain on the budget. (Expansion, 2/10)

Central Bank Head Says Labor Reforms Necessary; Zapatero, Minister Disagree

5.(U) At a February 11 conference, Bank of Spain Governor Miguel Angel Fernandez Ordonez reiterated his belief that reforms of Spain's rigid labor market are necessary in order to better promote investment and employment creation, and hence aid in recovery from the crisis. In an event organized by the European press writers association the following day, President Zapatero expressed his disagreement with Fernandez Ordonez' remarks, asserting instead that Spain would not "follow the path" suggested by the Bank of Spain Governor. Labor Minister Corbacho also criticized Fernandez Ordonez' remarks. Comment: Spain has one of the most rigid labor markets in Europe, with generous layoff payouts and other substantial benefits. This rigidity has long been a source of contention with businesses, many of which prefer to hire temporary workers as a means of avoiding the obligations of permanent ones. (ABC 2/11, 2/12; El Confidencial, 2/12)

Police Seize Unauthorized Video Game Copying Devices

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6.(U) Spanish National Police seized 1,150 unauthorized copying and modification devices that enable video games to be uploaded to portable Nintendo consoles. Acting on a complaint from Nintendo, police forces in five regions raided stores belonging to an unnamed game distributor in eight cities. According to the company, this is the first major operation by Spanish law enforcement against this type of device for video game piracy. Comment: Over the past year, law enforcement has conducted a number of successful operations against street vendors of pirated and counterfeit merchandise, and rights-holders have recognized and praised increased police activity in this area. (El Pais, 2/13)

Movie Ticket Sales Down, Industry Blames Piracy

7.(U) The European Audiovisual Observatory released preliminary figures this week showing that sales of movie tickets in Spain fell by 7.6 percent in 2008, the second-largest decline in the European Union after Hungary. Fernando Lara, director of Spain's Institute of Audiovisual Arts and Sciences, placed the blame on piracy, saying, "The amount of piracy that we see here is way above that of other countries, particularly in terms of internet downloads...which is having an alarming effect on cinemas." Comment: Rights-holder representatives are unanimous in the belief that internet piracy in Spain continues to grow rapidly and is causing serious damage. Negotiations between Internet Service Providers and rights-holders towards an agreement on how best to combat the phenomenon are advancing slowly. (El Pais English, 2/10)  
CHACON